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Public Utility Commission of Texas

Memorandum

TO: Chairman Peter M. Lake
Commissioner Will McAdams
Commissioner Lori Cobos
Commissioner Jimmy Glotfelty

FROM: Darryl Tietjen, Rate Regulation Division

DATE: March 28, 2022

RE: Docket No. 52302—*Application of Entergy Texas, Inc. for a Financing Order*

Securitization Pricing

On Thursday, March 24, 2022, Entergy Texas, Inc. (ETI) completed the pricing of \$290.85 million of system restoration bonds authorized by the Commission in its January 14, 2022 order for this docket. The pricing culminated approximately three months of various activities that included the development of the appropriate structure of the bonds, working with the major credit rating agencies, preparing all necessary legal documentation, and developing and distributing marketing presentations. Goldman Sachs and Citi served as bookrunners for the transaction (Goldman Sachs was the structuring lead), with Regions Securities and R. Seelaus Securities serving as co-managers. Over the last several days, during the final stages of the marketing efforts leading up to the pricing, I and members of Drexel Hamilton, LLC (the Commission's pricing advisor) participated in multiple market-status calls with the investment banks and representatives of ETI.

I am pleased to inform you that the pricing levels of this transaction were very favorable to Texas ratepayers, as the final terms resulted in a weighted-average interest rate of **3.61%**. I would emphasize here that this low financing rate was achieved notwithstanding a current marketplace that reflects an appreciable degree of uncertainty and volatility related to a variety of economic and geopolitical factors.

For your reference, the table below lists all 14 Texas securitization transactions for electric investor-owned utilities to date¹ and their overall interest costs:

¹ Nine of the 14 securitizations have been for recovery of stranded costs and other true-up balances; five have been for recovery of system restoration costs. Please note that the list of securitization transactions shown in this memo does not include the \$800 million financing approved in Docket No. 52321, *Application of Electric Reliability Council of Texas Inc. for a Debt Obligation Order Pursuant to Chapter 39, Subchapter M, of the Public Utility Regulatory Act*.

<u>Transaction</u>	<u>Amount (millions)</u>	<u>Overall Interest Rate</u>
Reliant 2001	\$749	5.37%
CPL 2002	\$797	5.80%
TXU 2003	\$500	4.84%
TXU 2004	\$790	4.88%
CenterPoint 2005	\$1,851	5.18%
AEP 2006	\$1,740	5.19%
Entergy 2007	\$330	5.83%
CenterPoint 2008	\$488	4.78%
Entergy 2009	\$546	3.88%
CenterPoint 2009	\$665	3.72%
CenterPoint 2012	\$1,695	2.50%
AEP 2012	\$800	2.28%
AEP 2019	\$235	2.23%
ETI 2022	\$291	3.61%

Below are some additional details on this ETI transaction:

<u>Tranche</u>	<u>Size</u>	<u>Avg Life (Yrs)</u>	<u>Avg Rate</u>
A1	100,000,000	3.02	3.051%
<u>A2</u>	<u>190,850,000</u>	<u>9.97</u>	<u>3.697%</u>
Total	290,850,000	7.58	3.609%

The securitized rates achieved in this financing will result in a dramatic reduction of the interest charges that, absent securitization, customers would pay on the system restoration costs. For ETI, the non-securitized rate of return on these system restoration costs would be 7.73%, and over the life of the bonds, the reduced interest charges from the securitization of these costs will result in savings for Texas ratepayers of approximately \$108 million.

Notification of Compliance

As required by ordering paragraph 6 and findings of fact 34 and 37 in the financing order, on the day after pricing (that is, on Friday, March 25, 2022) ETI filed with the Commission its issuance advice letter detailing the final structuring and pricing terms of the bond issue. The order additionally requires in ordering paragraph 27 that:

The Commission's designated representative must notify Entergy Texas and the Commission no later than 12:00 p.m. central standard time on the business day after the Commission's receipt of the issuance advice letter for each series of system restoration bonds whether the structuring, marketing, and pricing of that series of system restoration bonds comply with the criteria established in this Order.

Serving in the role of the Commission's designated representative, and as required by the provisions of ordering paragraph 27 as indicated above, I am informing you and ETI that it is my opinion that the structuring, marketing, and pricing of each series of the securitized bonds

described in the issuance advice letter that ETI filed on March 25, 2022 comply with the requirements of PURA and the Commission's financing order in Docket No. 52302.²

Possible Commission Action

I also need to bring to your attention certain provisions of finding of fact 37, which, consistent with the Commission's financing orders in previous securitization dockets, states:

The initial system restoration charges and the final terms of the system restoration bonds set forth in the issuance advice letter must become effective on the date of issuance of the system restoration bonds (which must not occur before the fifth business day after pricing) unless before noon on the fourth business day after pricing the Commission issues an order finding that the proposed issuance does not comply with the requirements of PURA and the Order.

Based on the provisions cited above, unless the Commission issues an order on or before noon on Wednesday, March 30th (which is the fourth business day after pricing) that the proposed issuance does *not* comply with PURA and the requirements of the order, the transaction will close on Thursday, March 31st, and the bonds will be issued. The terms of the financing order provide that the charges and terms become effective automatically unless otherwise acted upon by the Commission.

Accordingly, if the Commission has no reason or cause to stop the transaction, the Commission is not required to take any specific affirmative or "positive" action for the bonds to be issued and the system restoration charges to begin.

Drexel Hamilton

Finally, I would like to recognize the contributions made to this transaction by the Commission's pricing advisor, Drexel Hamilton. Jeremy Traska was my main point of contact with Drexel, and he and John Kerin participated in all the key stages of this bond issuance. They provided independent perspective, expertise, and in-depth knowledge of the capital markets, and their participation and ideas during the final days of the pricing process were invaluable. Additionally, at key junctures during the different stages of the transaction, Drexel participated in conversations with Goldman Sachs and provided independent assessments in a timely and constructive manner. Ultimately, I felt that Drexel's involvement in the decision-making processes was extremely effective and played a significant role in achieving very favorable interest rates for these securities.

I am available to answer any questions you may have regarding this transaction.

² I would note here that, during the marketing and pricing process for this transaction, Goldman Sachs received written confirmation from certain key investors that further "tightening" (i.e., lowering) of the interest rate levels would likely result in those investors reducing or withdrawing their orders. This could have created a situation in which the level of demand for the securities would have been insufficient to sell the entirety of the issuance. In my opinion, this information demonstrates unambiguously that the pricing levels of the bonds were precisely consistent with the provision of PURA § 39.301 that states "The commission shall ensure that the structuring and pricing of the transition bonds result in the lowest transition bond charges consistent with market conditions and the terms of the financing order."